

**SOUTH CAROLINA
DEPARTMENT OF AGRICULTURE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

June 24, 2019

The Honorable Hugh E. Weathers, Commissioner
South Carolina Department of Agriculture
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Agriculture (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2018. The Department's management is responsible for the systems, processes and behaviors related to financial activity. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the management of the South Carolina Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed Upon Procedures Related to South Carolina Department of Agriculture (P16)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations over \$300,000 and 10% for the Earmarked Fund and \$100,000 and 10% for the Federal Fund.
2. Randomly select fifteen cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account classification to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner in accordance with Proviso 117 .1 of the fiscal year 2018 Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
 - Determine that receipts are recorded in the proper fiscal year.

Finding

During our comparison of revenue between fiscal years, we confirmed the Department received \$1,364,490 for the sale of property in fiscal year 2018. We inspected the South Carolina Enterprise Information System (SCEIS) Asset History report and determined two assets involved in the sale were not removed from the SCEIS asset system.

Management's Response

This was an oversight that occurred between transition of accounting staff.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$300,000 and 10% for the General Fund, \$4,000,000 and 10% for the Earmarked Fund, and \$100,000 and 10% for the Federal Fund.
4. Randomly select fifteen non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department.
 - The transaction is properly classified in the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Determine that disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures, inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.

Cash Disbursements/Non-Payroll Expenditures (Continued)

5. Haphazardly select ten purchasing card transactions from the Comptroller General's listing of purchasing card transactions for fiscal year 2018 and inspect supporting documentation to determine:
 - The cardholder is an authorized user.
 - The purchase is authorized based on the cardholder's job title/position
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of these procedures.

Payroll

6. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$300,000 and 10% for the General Fund, \$4,000,000 and 10% for the Earmarked Fund, and \$100,000 and 10% for the Federal Fund.
7. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.
8. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than 10%.
9. Randomly select ten employees and inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

10. Haphazardly select ten employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
11. Haphazardly select ten employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
12. Haphazardly select five bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Payment agreed to supporting documentation.
 - Bonus pay was approved by the appropriate supervisor.

Payroll (Continued)

Finding

An employee who terminated employment in August 2017 was not removed from the SCEIS payroll system until October 2017.

Management's Response

While the agency's employee separation procedures accurately describe the necessary steps, there is no timeline established for accomplishing this task. HR will revise the procedure to dictate a timeframe in which removal should occur.

Journal Entries and Transfers

13. Haphazardly select six journal entries and four transfers for the fiscal year to:

- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
- Confirm transaction is properly approved.
- Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of these procedures.

Reporting Packages

14. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.

15. In addition to the procedure above, perform the following:

- Other Receivables Reporting Package

Haphazardly select three receivables to determine if reported amounts are accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Rptg - Accounts Receivable Current with Customer report and/or Department prepared records.

- Capital Assets Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Department prepared records.

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Rptg Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Five haphazardly selected contingent rental payments; (2) One haphazardly selected payment for one vendor included in each of the remaining rental payment classifications (US Postal Service, Scoular - Office Rental, Agriculture Department-Interagency, Clemson-Rental of PDSFM); (3) All future rental payments to be received for property leased to others; and (4) All leases with Future Minimum Lease Payments.

- Litigation Reporting Package

Haphazardly select three transactions from the SCEIS Yearend Reporting - Litigation Expense report to determine if the Department obtained approval from the Attorney General's Office to hire attorneys, to ensure amounts charged were within approved limits and service date range and to ensure proper coding of legal and attorney payments.

Reporting Packages (Continued)

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. Compare the Annual Leave, Holiday Leave, and Compensation Time balances for each employee from the CG's Compensated Absence Report, to the 6/30/2018 balances in SCEIS to determine if the Department had any late submissions of leave.

Findings

Reporting Package Submission

The Department submitted the Master Reporting Package Checklist and the Subsequent Events Questionnaire after the due date established by the CG.

Capital Assets Reporting Package

We identified an aggregate variance of \$32,113 between acquisitions/transfers in and debits and between retirements/transfers out and credits for General Ledger Account 18010160000 (Data Processing Equipment) and General Ledger Account 18010290000 (Agriculture Equipment) when compared to the Asset History Sheet. The Department should have answered "No" to questions #2 & #3 of Part I of the Capital Assets Questionnaire and reported this information on the Reconciliation of SCEIS Asset History Report Activity to General Ledger Activity. A similar finding was observed in the 2017 State Auditor's Report.

Management's Response

The two tardy reporting package submissions were simple oversights. With the help of Department of Administration, correcting entries were made at year end to properly classify assets based on revised thresholds for low value assets. This year a tracking spreadsheet was created and shared among SCDA Administration employees to ensure timely submission of reporting packages. Regarding questions 2 and 3 on the Capital Assets Reporting Package, the questions were not fully understood. The ending balances in the asset system were confirmed and general ledger matched so the questions were answered affirmatively.

Governance, Risk and Compliance (GRC) SCEIS Module

16. Select all controls identified through the SCEIS GRC system that were in place during fiscal year 2018 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of these procedures.

Appropriation Act

17. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
18. Confirm compliance with the selected agreed-upon agency-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of these procedures.

Capital Assets

19. Haphazardly select ten capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.

Capital Assets (Continued)

20. Haphazardly select five capital asset retirements and inspect supporting documentation to determine:

- The asset was originally recorded in the proper asset class.
- The asset was properly removed from the Department's books.
- The asset disposal was properly approved.

Finding

A capital asset acquisition selected for inspection was capitalized for the incorrect amount due to the exclusion of freight charges. The asset was understated by \$412 in the SCEIS asset system. Similar findings regarding capitalization of assets were observed in the 2017 State Auditor's report.

Management's Response

The previous accounting team failed to allocate the pro-rata share of freight among 5 assets. The current accounting team has been reminded that freight is a capitalizable expense.

Travel Advances

21. Haphazardly select five travel advances and inspect supporting documentation to:

- Determine the travel advance was not made to an employee for travel within the State without proper approval from the CG.
- Determine the travel advance was not made for more than 80% of the estimated amount of total travel expenses or made in instances where 80% of the estimated travel expense does not exceed \$250.
- Determine that the Department maintained adequate records/supporting documentation regarding the advance.
- Determine that the travel advance was submitted for approval no later than seven business days prior to the beginning of the trip.
- Confirm the traveler repaid the advance within thirty days after the end of the trip.

We found no exceptions as a result of these procedures.

Permanent Improvements

22. Inspect the State of South Carolina Comprehensive Permanent Improvement Plan, Summary of Permanent Improvement Projects applicable to the Department.

We found no exceptions as a result of these procedures.

South Carolina Foundation for Agriculture (SCFA)

23. Inspect the SCFA's bylaws and any contractual agreement or memorandum of understanding between the SCFA and the Department to determine the purpose of the SCFA and to identify its roles and responsibilities regarding the Department.

We found no exceptions as a result of these procedures.

Status of Prior Findings

24. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined the Department has taken adequate corrective action on the findings except we identified similar findings regarding the capital assets reporting package and the capitalization of assets. See findings at **Reporting Packages** and **Capital Assets**, respectively.